

EXAMINATION REPORT OF
MILBANK INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2018

West Des Moines, Iowa
February 25, 2020

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

MILBANK INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 1300 Woodland Avenue, West Des Moines, Iowa. The report of such examination, containing applicable comments, explanations and financial data, is presented herein.

INTRODUCTION

Milbank Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013 by the Iowa Insurance Division. In conjunction with this examination, the Ohio Insurance Department conducted an examination of the Company's ultimate parent, State Automobile Mutual Insurance Company. The Company is a participant in a pooling arrangement with the Parent and various members of the State Auto Group. As a result, reliance has been placed on the Ohio Insurance Department's examination of the pooling balances.

SCOPE OF THE EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was established in 1892 under the laws of South Dakota as the Evangelical Mutual Insurance Company; the name Milbank Mutual Insurance Company was adopted in 1952. The company was incorporated on October 21, 1982 under the laws of South Dakota to become the successor to Milbank Mutual Insurance Company. Effective July 1, 1993, State Automobile Mutual Insurance Company (SAM) purchased the Company from Royal Group, Inc. Subsequently, on July 7, 1998, State Auto Financial Corporation exercised its option to acquire Milbank from State Automobile Mutual.

CAPITAL STOCK

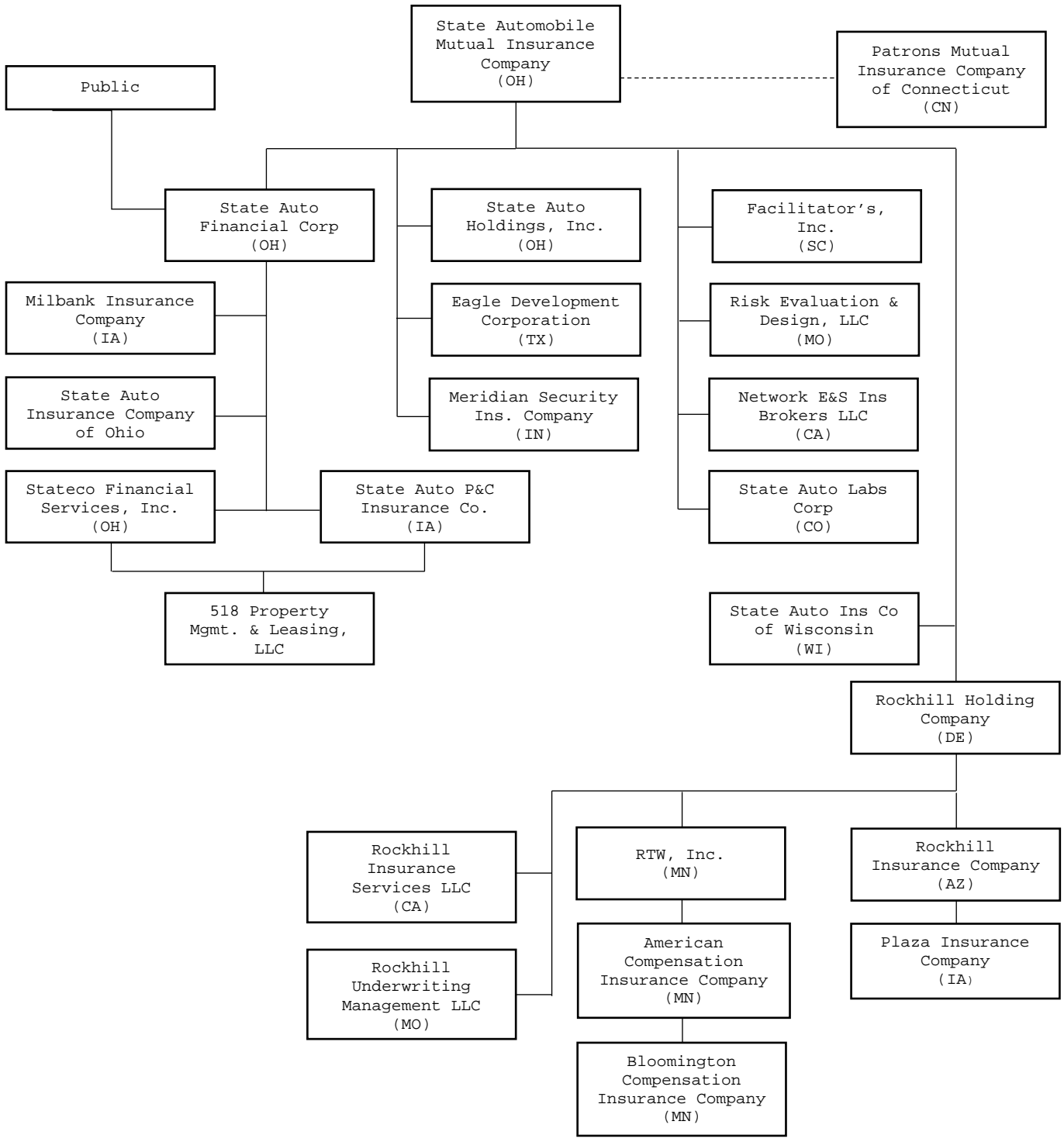
The Company has 25,000 shares of \$120 par value common stock authorized and 25,000 shares issued and outstanding. The Company has no preferred stock authorized, issued, or outstanding.

Dividends on common stock are paid as declared by the Board of Directors of the Company. On January 3, 2014, the Board of Directors of the Company declared a \$1,000,000 ordinary stockholders dividend to be paid to State Auto Financial Corporation. This dividend was paid in cash on January 30, 2014. In accordance with Iowa Code section 521A.5(3), the maximum amount of dividends that the Company may pay out of earned surplus to shareholders within a twelve month period without prior approval of the Division is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income for the twelve-month period ending the 31st day of December of the previous year-end. Accordingly, the maximum dividend payout to shareholders that may be made without prior approval of the Division in 2019 is \$15,798,079.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. For each year during the examination period, and in accordance with statutory requirements, the Company filed holding company statements with the Iowa Insurance Division.

The ultimate controlling person is State Automobile Mutual Insurance Company, an Ohio domiciled insurer. The following displays the chain of ownership of the insurance companies as of December 31, 2018:



MANAGEMENT AND CONTROL

STOCKHOLDERS

The annual meeting of shareholders for the election of directors and the transaction of such other business as may be brought before the meeting shall be held within a period of six months after the close of each fiscal year of the corporation, on such day in such period as shall be designated by the Board of Directors, and at such time and at such place in or out of the State of Iowa. Special meetings of the shareholders may be held at any time and at any place in or out of the State of Iowa upon call by the President or Secretary or by majority of the members of the Board of Directors acting with or without a meeting.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company shall be managed by a Board of Directors. The number of directors which shall constitute the whole Board shall not be less than five nor more than 21, the exact number to be specified from time to time by the Bylaws or by resolution of the Board of Directors or by the shareholders at their annual meeting. Directors shall be elected for a one-year term.

The elected and qualified individuals serving as directors at December 31, 2018 are as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Robert E. Baker Mableton, GA	Executive Vice President DHR International	2019
Kym M. Hubbard Chicago, IL	Retired Chief Investment Officer Ernst & Young, LLC	2019
Thomas E. Markert New York, NY	CEO ORC International	2019
David R. Meuse Lancaster, OH	Principal Stonehenge Financial Holdings, Inc	2020
Setareh Pouraghabagher San Luis Obispo, CA	Faculty and Financial Consultant California Polytechnic State University	2020
Sharon E. Roberts Columbus, OH	President and Chief Executive Officer John Glenn Columbus International Airport	2020
Michael J. Fiorile Columbus, Ohio	President and CEO Dispatch Printing Company	2021
Michael E. LaRocco Columbus, OH	President and Chief Executive Officer State Automobile Mutual Insurance Company	2021
Eileen A. Mallesch Gahanna, OH	Retired Chief Financial Officer Nationwide Property & Casualty Insurance Company	2021

All directors fees are paid by the ultimate parent with an amount allocated to the Company in accordance with a management agreement.

COMMITTEES

The following committees were appointed by the Board of Directors and serving as of December 31, 2018:

<u>Investment Committee</u>	<u>Audit Committee</u>	<u>Independent Committee</u>
David R. Meuse, Chair	Eileen A. Mallesch, Chair	Thomas E. Markert, Chair
Michael E. LaRocco	Robert E. Baker	Kym M. Hubbard
Kym M. Hubbard	Kym M. Hubbard	Eileen A. Mallesch
	David R. Meuse	Setareh Pouraghabagher
	Setareh Pouraghabagher	Sharon E. Roberts
		David R. Meuse

OFFICERS

The Bylaws provide that the officers of the corporation shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers and assistant officers as shall be elected by the Board of Directors. Any person may hold two or more offices at the same time, subject to approval of the Board of Directors, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity if such instrument is required by law to be executed, acknowledged, or verified by two or more officers.

Duly elected officers serving as of December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
Michael E. LaRocco	Chairman, President, and Chief Executive Officer
Jason E. Berkey	Senior Vice President, Personal Lines
Melissa A. Centers	Senior Vice President, Secretary, General Counsel
Steve E. English	Senior Vice President, Chief Financial Officer
Kim B. Garland	Senior Vice President, Commercial Lines
Scott A. Jones	Vice President, Chief Investment Officer
Matthew S. Mrozek	Vice President, Chief Actuarial Officer
Matthew R. Pollak	Vice President, Treasurer, Chief Accounting Officer
John M. Petrucci	Senior Vice President, Customer Service
Elise d. Spriggs	Senior Vice President, Associate & External Relations
Paul M. Stachura	Senior Vice President, Chief CARE Officer
Gregory A. Tacchetti	Senior Vice President, Chief Information & Strategy

Officers' salaries are shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest, or affiliation on the part of its officers, directors or key employees, which is in, or is likely to, conflict with the official duties of such person. While conflicts were disclosed on the signed conflict of interest statements, none were identified that would materially impact the Company.

CORPORATE RECORDS

There were no amendments to the Articles of Incorporation and By-Laws during the examination period.

The recorded minutes of the stockholders and Board of Directors were read and noted. The minutes appeared to be complete and were properly attested.

RELATED PARTY AGREEMENTS

Management Agreement

Through contractual agreements with affiliated companies within the State Auto Group, State Auto Property & Casualty Insurance Company provides employees, while State Automobile Mutual Insurance Company provides data processing and certain other data equipment and facilities as needed.

During 2018 and 2017, the following management and/or cost sharing agreements were effective:

- 1) "2015 Management and Operations Agreement" to which State Auto Mutual, State Auto P&C, Milbank, SA Ohio, Meridian Security, Patrons Mutual, State Auto Financial, Stateco, 518 Property Management and Leasing LLC, State Auto Holdings, Facilitators, Network, and SA Labs are parties;
- 2) "Midwest Management Agreement" to which SAM, State Auto Property & Casualty Insurance Company, and State Auto Insurance Company of Wisconsin are parties;
- 3) "RTW Consulting Services Agreement" to which SAM, State Auto Property & Casualty Insurance Company, Meridian Security Insurance Company, and Milbank Insurance Company entered into an agreement with RTW, Inc. an affiliate for overall claims case management for the workers' compensation program;
- 4) "Rockhill Management & Operations Agreement" to which SAM, State Auto Property & Casualty Insurance Company, Rockhill Insurance Company, Plaza Insurance Company, American Compensation Insurance Company, Bloomington Compensation Insurance Company, Rockhill Holding Company, National Environmental Coverage Corporation, RTW, Inc., Rockhill Insurance Services, LLC., and Rockhill Underwriting Management, LLC. are parties;
- 5) "Rockhill-RUM Administrative Services Agreement" to which Rockhill Insurance Company and Rockhill Underwriting Management, LLC are parties;
- 6) "Rockhill-RIS Surplus Lines Broker Agreement" to which Rockhill Insurance Company and Rockhill Insurance Services, LLC are parties;
- 7) "Rockhill Cost Sharing Agreement" to which Rockhill Insurance Company, Rockhill Holding Company, and Rockhill Underwriting Management, LLC are parties;
- 8) "Rockhill-ACI Intercompany Management Agreement" to which American Compensation Insurance Company and RTW, Inc. are parties;
- 9) "Rockhill-BCI Intercompany Management Agreement" to which Bloomington Compensation Insurance Company and RTW, Inc. are parties;
- 10) "RUM Administrative Services Agreement" to which SAM and Rockhill Underwriting Management, LLC are parties;
- 11) "Stateco Investment Management Agreement" to which Stateco, a wholly owned subsidiary of STFC, provides investment management services to the Company for a fee based on the average fair value of the investment portfolio of the Company;
- 12) "RUM-ACI Intercompany Management Agreement" to which Rockhill Underwriting

Management, LLC and American Compensation Insurance Company are parties;

13) "RUM Underwriting Services Agreement" to which Rockhill Underwriting Management, LLC and Plaza Insurance Company are parties;

14) "RTM Management Services Agreement" to which RTW, Inc. and Plaza Insurance Company are parties.

Each of the foregoing management and/or cost sharing agreements apportions or apportioned among the parties the actual costs of the services provided. With the exception of the "2015 Management & Operations Agreement", the "RTW Consulting Services Agreement", the "Rockhill Management & Operations Agreement", the "Rockhill Cost Sharing Agreement", the "RTW Administrative Services Agreement", the "RTW-ACI Intercompany Management Agreement", and the "RTW-BCI Intercompany Management", the above agreements provide for a management fee for services provided.

Federal Income Tax Allocation Agreement

The Company is party to a Tax Allocation Agreement with its parent, State Auto Financial Corporation and other named affiliates. The agreement provides for the allocation of federal income taxes based upon the taxes that each company would have paid if separate returns were filed.

Investment Agreement

The Company has an Investment Agreement with its affiliate, Stateco Financial Services, Inc. (Stateco) whereby Stateco has been designated as the investment manager. The agreement grants the investment manager the ability to select investments to purchase, allocate funds between tax free and taxable securities, and to make decisions with respect to the sale of investments and the timing of such sales. Expenses for these services are disclosed in a fee schedule contained in the agreement.

FIDELITY BONDS AND OTHER INSURANCE

SAM and its subsidiaries, including the Company, are protected by a fidelity bond with a coverage limit of \$5,000,000.

Other insurable interests of the Company were protected by policies or insurance in force at December 31, 2018.

EMPLOYEES' WELFARE

All personnel services are provided by State Auto Property and Casualty Insurance Company through the Management Agreement. Employees receive group insurance coverage such as medical, life, and accidental death and dismemberment. In addition, retirement coverage is available through a pension plan, capital accumulation plan, and an employee stock purchase plan.

REINSURANCE

The Company participates in an intercompany quota share reinsurance pooling agreement with SAM and its subsidiaries and affiliates. Under the arrangement provide SAM assumes net premiums, losses, and expenses from each of the pooled companies and then cedes a portion of premiums, losses, and expenses to the pooled companies in specific percentages, with SAM retaining the balance of the pooled business. Below is a table listing the pooling percentages as of December 31, 2018:

<u>Name of Company</u>	<u>State of Domicile</u>	<u>Pool %</u>
State Automobile Mutual Insurance Company	Ohio	34.5%
State Auto Property & Casualty Insurance Company	Iowa	51.0%
Milbank Insurance Company	Iowa	14.0%
State Auto Ins. Company of WI	Wisconsin	0.0%
State Auto Ins Co. of OH	Ohio	0.0%
Meridian Security Ins. Co	Indiana	0.0%
Patrons Mutual Ins. Company	Connecticut	0.5%
Rockhill Ins. Company	Missouri	0.0%
Plaza Ins. Company	Iowa	0.0%
American Compensation Ins. Co.	Minnesota	0.0%
Bloomington Compensation Ins Co	Minnesota	0.0%

Assumed Reinsurance

The Company assumes an insignificant amount of reinsurance from mandatory pools.

Ceded Reinsurance

Members of the State Auto Group follow the customary industry practice of reinsuring a portion of its exposures and paying to the reinsurers a portion of the premiums received. Insurance is ceded principally to reduce net liability on individual risks or for individual loss occurrences, including catastrophic losses.

Homeowners Quota Share State

SAM entered into a 75% quota share reinsurance agreement with three reinsurers for the pooled homeowners business, effective December 31, 2011 and terminated on December 31, 2014. The quota share agreement was intended to deleverage the ratio of premiums written to surplus as well as to provide additional downside protection for homeowners catastrophe losses. Certain material adverse change clauses were incorporated into the agreement to ensure that the State Auto Group is implementing the necessary steps in order to become profitable in its homeowners line of business. There is also a cap on profitability to ensure that the reinsurers do not benefit excessively from the agreement.

Other Reinsurance Arrangements

Each member of the State Auto Group is party to working reinsurance treaties for casualty, workers' compensation and property lines with several reinsurers arranged through reinsurance intermediaries. These agreements are described in more detail below. The State Auto Group has also secured other reinsurance to limit the net cost of large loss events for certain types of coverage. The State Auto Group also makes use of facultative reinsurance for unique risk situations. The State Auto Group also participates in state insurance pools and associations. In general, these pools and associations are state sponsored and/or operated, impose mandatory participation by insurers doing business in that state, and offer coverage for hard-to-place risks at premium rates established by the state sponsor or operator, thereby transferring risk of loss to the participating insurers in exchange for premiums which may not be commensurate with the risk assumed.

Property Catastrophe

Members of the State Auto Group maintain a property catastrophe excess of loss reinsurance agreement, covering property catastrophe related events affecting at least two risks. This property catastrophe reinsurance agreement renewed as of July 1, 2018. Under this reinsurance agreement, the Group retains the first \$75.0 million of catastrophe loss, each occurrence, with a 5.0% co-participation on the next \$125.0 million of covered loss, each occurrence. The reinsurers are responsible for 95.0% of the catastrophe losses excess of \$75.0 million up to \$200.0 million, each occurrence. The State Auto Group is responsible for catastrophe losses above \$200.0 million.

Property Per Risk

As of July 1, 2018, the State Auto Group renewed the property per risk excess of loss reinsurance agreement. This reinsurance agreement provides individual property risk coverage for the State Auto Group for losses exceeding \$4.0 million. Claims arising from named storms and earthquake for Excess & Surplus property (currently in runoff) are excluded from this treaty. The reinsurers are responsible for 100.0% of the loss excess of the \$4.0 million retention for property business up to \$20.0 million of covered loss.

Casualty and Workers' Compensation

As of July 1, 2018, the State Auto Group renewed the casualty excess of loss reinsurance agreement. Under this reinsurance agreement, the State Auto Group is responsible for the first \$3.0 million of losses that involve workers' compensation, auto liability, other liability and umbrella liability policies. This reinsurance agreement provides coverage up to \$10.0 million, except for commercial umbrella policies, which are covered for limits up to \$15.0 million. Excess & Surplus casualty and programs risks are not subject to this casualty excess of loss reinsurance agreement.

Also, certain unusual claim situations involving extra contractual obligations, excess of policy limits, LAE coverage and multiple policy or coverage loss occurrences arising from bodily injury liability, property damage, uninsured motorist and personal injury protection are covered by a Clash reinsurance agreement that provides for \$30.0 million of coverage in excess of \$10.0 million retention for each loss occurrence. This Clash reinsurance coverage sits above the \$7.0 million excess of \$3.0 million arrangement. Policies underwritten by the Excess & Surplus casualty and programs units are not subject to this casualty excess of loss reinsurance agreement.

In addition, each company in the State Auto Group is party to a workers' compensation catastrophe insurance agreement that provides additional reinsurance coverage for workers' compensation losses involving multiple workers. Subject to \$10.0 million of retention, reinsurers are responsible for 100.0% of the excess over \$10.0 million up to \$30.0 million of covered loss. For loss amounts over \$30.0 million, the casualty excess of loss reinsurance agreement provides \$20.0 million coverage in excess of \$30.0 million. Workers' compensation catastrophe coverage is subject to a "Maximum Any One Life" limitation of \$10.0 million. This limitation means that losses associated with each worker may contribute no more than \$10.0 million to covered loss under these agreements. As of July 1, 2018, the State Auto Group terminated its reinsurance coverage for Excess & Surplus casualty and program casualty risks on a run-off basis, meaning treaty coverage remains in place only for those Excess & Surplus casualty and program casualty policies with effective dates prior to July 1, 2018, until the expiration of these policies.

STATUTORY DEPOSIT

The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for the benefit of all policyholders totaled \$2,342,156. The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Ohio for the benefit of all policyholders totaled \$430,830.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in the following states:

Arizona	Maryland	Pennsylvania
Colorado	Minnesota	South Carolina
Georgia	Mississippi	South Dakota
Idaho	Montana	Tennessee
Illinois	Nebraska	Utah
Indiana	New Mexico	Virginia
Iowa	North Carolina	Washington
Kansas	North Dakota	West Virginia
Kentucky	Ohio	Wisconsin

The Company markets preferred and standard insurance products, primarily personal automobile, farmowners and homeowners coverage principally in Illinois, Kentucky, Minnesota, Ohio, South Carolina, and Tennessee through approximately 470 independent agents.

GROWTH OF COMPANY

The following is historical financial data, as taken from the Company's annual statements for the years indicated:

<u>Year</u>	<u>Admitted Assets</u>	<u>Policyholders Surplus</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2014	\$577,691,202	\$132,943,906	\$231,345,247	\$133,844,270	\$14,854,770
2015	592,933,971	142,177,819	273,640,848	152,147,026	14,346,051
2016	620,633,847	144,703,563	278,250,233	167,197,482	14,481,992
2017	635,913,929	154,031,791	274,641,958	163,415,002	15,551,076
2018	612,301,216	157,980,791	266,645,079	139,131,744	16,721,894

ACCOUNTS AND RECORDS

A trial balance was taken of the general ledger for the year 2018. The amounts were in agreement with, or reconciled to, the filed annual statement.

During the course of the examination no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2018, were identified.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2018.

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$436,634,654	\$ -	\$436,634,654
Common stocks	62,580,874		62,580,874
Properties held for sale	1,287,800		1,287,800
Cash and short-term investments	12,401,378		12,401,378
Other invested assets	35,000,000		35,000,000
Investment Income Due and Accrued	3,650,067		3,650,067
Premiums in course of collection	17,280,086		17,280,086
Deferred premiums booked and not yet due	1,137,692	113,769	1,023,923
Amounts recoverable from reinsurers	27,330,148		27,330,148
Net deferred tax asset	19,940,346	4,880,189	15,060,157
Guaranty funds receivable or on deposit	52,129		52,129
Prepaid expenses	2,071,584	2,071,584	-
Prepaid pension asset	15,809,541	15,809,541	-
Overfunded pension plan asset	(15,809,541)	(15,809,541)	-
	<hr/>	<hr/>	<hr/>
Total assets	\$619,366,758	\$ 7,065,542	\$612,301,216

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$195,062,980
Reinsurance payable on paid losses and LAE	45,109,052
Loss adjustment expense	53,404,971
Commissions payable, contingent commissions	8,744,625
Other expenses	9,284,789
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,236,744
Current federal and foreign income taxes (including \$0 on realized capital g	143,756
Unearned premiums	124,422,409
Ceded reinsurance premiums payable (net of ceding commissions)	71,338
Payable to parent, subsidiaries and affiliates	5,743,202
Miscellaneous liabilities	130,622
Excess ceding commissions	2,642
Retroactive reinsurance reserves - ceded	(2,660,000)
Pension benefits liability	8,037,993
Retiree medical benefits liability	3,585,069
Equities and deposits in pools and associations	233
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Total liabilities	\$454,320,425
Common capital stock	\$3,000,000
Gross paid in and contributed capital	113,029,565
Unassigned funds (surplus)	41,951,226
	<hr/>
Surplus as regards policyholders	\$157,980,791
Total liabilities and surplus	<hr/> <u>\$612,301,216</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned	\$ 266,645,079
 <u>Deductions</u>	
Losses Incurred	\$ 139,131,744
Loss expenses incurred	32,747,432
Other underwriting expenses incurred	95,688,159
Total underwriting deductions	267,567,335
Net underwriting gain (loss)	\$ (922,256)

Investment Income

Net investment income earned	\$ 16,721,894
Net realized capital gains (losses)	(1,506,794)
Net investment income	15,215,100

Other Income

Net gain or (loss) from agents' balances charged off	\$ (847,907)
Finance and service charges not included in premiums	754,685
Miscellaneous income (expense)	15,363
Governmental fines and penalties	(23,033)
Total other income	(100,892)
Net income before dividends to policyholders	\$ 14,191,952
Dividends to policyholders	74,027
Net income before Federal income tax	14,117,925
Federal and foreign income taxes incurred	(1,521,326)
Net income	\$ 15,639,251

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	\$ 154,031,791
Net income	15,639,251
Change in net unrealized capital gains or (losses)	(7,524,440)
Change in net deferred income tax	(2,593,306)
Change in nonadmitted assets	(2,382,792)
Change in provision for reinsurance	68,690
Unrecognized pension, net	793,485
Unrecognized retiree medical, net	(51,888)
Change in surplus as regard policyholders for the exam period	\$ 3,949,000
Surplus as regards policyholders, December 31, 2018	\$ 157,980,791

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$277,744,688	
Net investment income	19,463,042	
Miscellaneous income	(100,892)	
Total		\$297,106,838
Benefit and loss related payments	\$174,710,190	
Commissions, expenses paid, aggregate write-ins	120,058,875	
Dividends paid to policyholders	74,027	
Federal income taxes paid (recovered)	(2,510,760)	
Total		<u>292,332,332</u>
Net cash from operations		<u>\$ 4,774,506</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 67,099,868	
Stocks	25,530,398	
Total investment proceeds		\$ 92,630,266
Cost of investments acquired (long-term only):		
Bonds	\$ 65,815,541	
Stocks	25,441,380	
Total investments acquired		<u>91,256,921</u>
Net cash from investments		<u>\$ 1,373,345</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):		
Other cash provided (applied)	\$ (5,629,309)	
Net cash from financing and miscellaneous sources		<u>\$ (5,629,309)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 518,542
Cash and short-term investments:		
Beginning of year		<u>11,882,836</u>
End of year		<u>\$ 12,401,378</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 1,324,523,365

Deductions

Losses Incurred	\$ 755,735,524	
Loss expenses incurred	170,617,907	
Other underwriting expenses incurred	468,236,421	
Premium deficiency reserve	(12,040)	
Total underwriting deductions		1,394,577,812
Net underwriting gain (loss)		\$ (70,054,447)

Investment Income

Net investment income earned	\$ 75,955,783	
Net realized capital gains (losses)	16,960,216	
Net investment income		92,915,999

Other Income

Net gain or (loss) from agents' balances charged off	\$ (2,342,827)	
Finance and service charges not included in premiums	4,795,318	
Miscellaneous income (expense)	489,858	
Governmental fines and penalties	(83,504)	
Retroactive reinsurance (gain)	37,267	
Total other income		2,896,112
Net income before dividends to policyholders		\$ 25,757,664
Dividends to policyholders		360,173
Net income before Federal income tax		25,397,491
Federal and foreign income taxes incurred		(5,441,031)
Net income		\$ 30,838,522

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	\$ 129,596,886
Net income	30,838,522
Change in net unrealized capital gains or (losses)	(8,086,626)
Change in net deferred income tax	16,438,315
Change in nonadmitted assets	(5,206,303)
Dividends to stockholders	(1,000,000)
Unrecognized pension, net	(4,350,951)
Unrecognized retiree medical, net	<u>(249,052)</u>
Change in surplus as regard policyholders for the exam period	<u>\$ 28,383,905</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 157,980,791</u>

CONCLUSION

The cooperation and assistance extended by officers and employees of the Company is hereby acknowledged.

Respectfully submitted,

/s/ Daniel Mathis
Daniel Mathis, CFE
Assistant Chief Examiner
Iowa Insurance Division